

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Fabius	County St. Joseph
Fiscal Year End 3/31/07	Opinion Date 8/21/07	Date Audit Report Submitted to State 9/28/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Seber Tans, PLC		Telephone Number 269-343-8180	
Street Address 555 W. Crosstown Pky., Ste. 304		City Kalamazoo	State MI
		Zip 49008	
Authorizing CPA Signature <i>Matthew A. Howard, CPA</i>	Printed Name Matthew Howard		License Number 1101013253

*Township of Fabius*  
*St. Joseph County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended March 31, 2007*

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# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

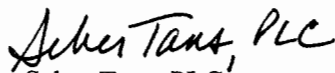
Board of Trustees  
Township of Fabius, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Fabius, Michigan (the Township) as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Fabius, Michigan as of March 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Seber Tans, PLC  
Kalamazoo, Michigan

August 21, 2007

***Township of Fabius***  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Our discussion and analysis of the Township of Fabius' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Township's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Township's total net assets increased by \$309 thousand (10 percent) as a result of this year's activities.
- Of the \$3.40 million total net assets reported, \$2.89 million (85 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$774 thousand, which represents 108 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
  - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
  - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-wide financial statements**

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) are one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements present *governmental activities*. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, library, etc.). Refuse royalties and state grants generally fund these services.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has two kinds of funds:

- **Governmental funds.** Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statements that explains the relationship between them.
- **Fiduciary funds.** These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**Township of Fabius**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**Net assets.** Total net assets at the end of the fiscal year were \$3.40 million. Of this total, \$495 thousand is invested in capital assets and \$17 thousand is restricted for public safety. Consequently, unrestricted net assets were \$2.89 million.

Condensed financial information  
Net Assets

	<i>Governmental activities</i>	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 2,917,332	\$ 2,816,889
Capital assets	<u>494,694</u>	<u>307,157</u>
<b>Total assets</b>	<b><u>3,412,026</u></b>	<b><u>3,124,046</u></b>
Other liabilities	<u>15,940</u>	<u>36,848</u>
Net assets:		
Invested in capital assets	494,694	307,157
Restricted	16,575	17,919
Unrestricted	<u>2,884,817</u>	<u>2,762,122</u>
<b>Total net assets</b>	<b><u>\$ 3,396,086</u></b>	<b><u>\$ 3,087,198</u></b>

**Township of Fabius**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Changes in net assets.** The Township's total revenues are \$838 thousand. Nearly 44 percent of the Township's revenues come from refuse royalties and 27 percent come from state grants.

The total cost of all the Township's programs, covering a wide range of services, totaled \$529 thousand. About 46 percent of the Township's costs relate to the provision for general government. Public safety costs account for 34 percent and recreation and culture costs are 11 percent of the Township's total expenses.

*Condensed financial information*  
*Changes in Net Assets*

	<i>Governmental activities</i>	
	<b>2007</b>	<b>2006</b>
Program revenues:		
Charges for services	\$ 61,405	\$ 67,506
Operating grants and contributions	6,019	5,418
Capital grants and contributions	6,972	-
General revenues:		
Property taxes	43,782	42,614
State shared revenue	223,473	224,532
Refuse royalties	366,290	370,898
Interest income	128,161	82,057
Miscellaneous	1,736	1,471
<b>Total revenues</b>	<b>837,838</b>	<b>794,496</b>
Expenses:		
Legislative	9,343	12,171
General government	244,245	262,666
Public safety	177,933	198,536
Public works	13,680	9,927
Health and welfare	12,278	8,991
Community and economic development	15,471	27,535
Recreation and culture	56,000	56,000
<b>Total expenses</b>	<b>528,950</b>	<b>575,826</b>
<b>Increase in net assets</b>	<b>\$ 308,888</b>	<b>\$ 218,670</b>



**Governmental activities.** Governmental activities increased the Township's net assets by \$309 thousand compared to \$219 thousand last year. Changes in individual categories of net expenses or general revenues were generally not significant, although significant increase in interest revenue was expected due to increased interest rates during the past fiscal year.

The cost of all governmental activities this year was close to \$529 thousand. After subtracting the direct charges to those who directly benefited from the programs (\$61 thousand), and operating and capital grants (\$13 thousand), the "public benefit" portion covered by refuse royalties, state revenue sharing, and other general revenues was \$455 thousand, compared to \$503 thousand in 2006.

### **FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

**Governmental funds.** As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,896,315, an increase of \$116,274 over the prior year. Of the total fund balances, 99 percent constitutes unreserved fund balance, which is available for spending at the Township's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) for building inspections (\$17 thousand).

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$774 thousand, which decreased by \$78 thousand during the fiscal year compared to \$852 thousand in 2006. The decrease was a result of additional road maintenance projects.

The Sewer Capital Improvement Fund experienced an increase in fund balance of \$195 thousand. The increase was a result of the interest earned and a transfer from the General Fund.

### **General Fund budgetary highlights**

Budgeted expenditures were increased by \$60,000 during the year to reflect anticipated cost increases. The difference between the actual and budgeted amounts (\$83,500) can be attributed to decisions to limit expenditures throughout the year.

### **Capital assets**

The Township's investment in capital assets for its governmental activities as of March 31, 2007, amounts to \$495 thousand (net of accumulated depreciation). This investment includes a broad range of assets, including land, buildings, equipment, and infrastructure. The increase in the Township's net investment in capital assets for the current fiscal year was \$188 thousand, comprised of road infrastructure, election equipment and building improvements.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

**Economic condition and outlook**

Refuse royalties are expected to remain constant during 2008. The Township plans to maintain all ongoing programs for 2008. State shared revenues are likely to decrease in 2008 due to the State of Michigan's on going budgetary challenges. The Lockport, Fabius, Park Township Fire Association is currently in the process of acquiring land on which to build a new fire station that the Township is expected to contribute several thousand dollars to support this building project during 2008 and 2009.

**Contacting the Township's financial management**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Robert McDonough, Township Supervisor  
Township of Fabius  
P.O. Box 455  
Three Rivers, Michigan 49093

Phone: (269) 244-5376

## **BASIC FINANCIAL STATEMENTS**

**Township of Fabius**  
**STATEMENT OF NET ASSETS**  
*March 31, 2007*

	<b><u>Governmental activities</u></b>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 1,344,212
Investments	1,433,832
Receivables, net	134,211
Prepaid expenses	<u>5,077</u>
Total current assets	<u>2,917,332</u>
Noncurrent assets:	
Capital assets not being depreciated	1,000
Capital assets, net of accumulated depreciation	<u>493,694</u>
Total noncurrent assets	<u>494,694</u>
Total assets	<u>3,412,026</u>
<b>LIABILITIES</b>	
Current liabilities - payables	<u>15,940</u>
<b>NET ASSETS</b>	
Invested in capital assets	494,694
Restricted - public safety	16,575
Unrestricted	<u>2,884,817</u>
Total net assets	<u><u>\$ 3,396,086</u></u>

*See notes to financial statements*

***Township of Fabius***  
**STATEMENT OF ACTIVITIES**  
*Year ended March 31, 2007*

		<b>Program revenues</b>			<b>Net (expenses) revenues and changes in net assets</b>
		<b>Charges for</b>	<b>Operating</b>	<b>Capital</b>	
<b>Functions/Programs</b>	<b><u>Expenses</u></b>	<b><u>services</u></b>	<b><u>grants and contributions</u></b>	<b><u>grants and contributions</u></b>	<b><u>Governmental activities</u></b>
Governmental activities:					
Legislative	\$ 9,343	\$ -	\$ -	\$ -	\$ (9,343)
General government	244,245	7,984	-	6,972	(229,289)
Public safety	177,933	52,971	-	-	(124,962)
Public works	13,680	-	6,019	-	(7,661)
Health and welfare	12,278	-	-	-	(12,278)
Community and economic development	15,471	450	-	-	(15,021)
Recreation and culture	<u>56,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,000)</u>
Total governmental activities	<u>\$ 528,950</u>	<u>\$ 61,405</u>	<u>\$ 6,019</u>	<u>\$ 6,972</u>	<u>(454,554)</u>
General revenues:					
Taxes					43,782
State grants					223,473
Investment income					128,161
Refuse royalties					366,290
Other					<u>1,736</u>
Total general revenues					<u>763,442</u>
Change in net assets					308,888
Net assets - beginning					<u>3,087,198</u>
Net assets - ending					\$ 3,396,086

See notes to financial statements

**Township of Fabius**  
**BALANCE SHEET - governmental funds**  
 March 31, 2007

	<u>General</u>	<u>Capital Improvement</u>	<u>Total governmental funds</u>
<b>ASSETS</b>			
Cash	\$ 672,104	\$ 672,108	\$ 1,344,212
Investments	-	1,433,832	1,433,832
Receivables	134,211	-	134,211
Total assets	<u>\$ 806,315</u>	<u>\$ 2,105,940</u>	<u>\$ 2,912,255</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities - payables	<u>\$ 15,940</u>	<u>\$ -</u>	<u>\$ 15,940</u>
Fund balances:			
Reserved for building inspections	16,575	-	16,575
Unreserved	<u>773,800</u>	<u>2,105,940</u>	<u>2,879,740</u>
Total fund balances	<u>790,375</u>	<u>2,105,940</u>	<u>2,896,315</u>
Total liabilities and fund balances	<u>\$ 806,315</u>	<u>\$ 2,105,940</u>	<u>\$ 2,912,255</u>
Total fund balances - total governmental activities			\$ 2,896,315
Amounts reported for governmental activities in the statement of net assets (page 5) are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			494,694
Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds.			<u>5,077</u>
Net assets of governmental activities			<u>\$ 3,396,086</u>

See notes to financial statements

**Township of Fabius**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**

**governmental funds**

Year ended March 31, 2007

	<u>General</u>	<u>Capital Improvement</u>	<u>Total governmental funds</u>
<b>REVENUES</b>			
Taxes	\$ 43,782	\$ -	\$ 43,782
Licenses and permits	35,946	-	35,946
State grants	229,492	-	229,492
Charges for services	25,459	-	25,459
Interest, rentals, and royalties	399,000	95,451	494,451
Other	1,736	-	1,736
Total revenues	<u>735,415</u>	<u>95,451</u>	<u>830,866</u>
<b>EXPENDITURES</b>			
Legislative	9,343	-	9,343
General government	256,156	-	256,156
Public safety	166,653	-	166,653
Public works	186,598	-	186,598
Health and welfare	15,371	-	15,371
Community and economic development	15,471	-	15,471
Recreation and cultural	56,000	-	56,000
Capital outlay	9,000	-	9,000
Total expenditures	<u>714,592</u>	<u>-</u>	<u>714,592</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<u>20,823</u>	<u>95,451</u>	<u>116,274</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	100,000	100,000
Transfer out	(100,000)	-	(100,000)
Total other financing sources (uses)	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>(79,177)</u>	<u>195,451</u>	<u>116,274</u>
<b>FUND BALANCES - BEGINNING</b>	<u>869,552</u>	<u>1,910,489</u>	<u>2,780,041</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 790,375</u>	<u>\$ 2,105,940</u>	<u>\$ 2,896,315</u>
Net change in fund balances - total governmental funds			\$ 116,274
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:			
Capital assets:			
Assets acquired			211,468
Provision for depreciation			(23,931)
Changes in other assets:			
Prepaid expense			<u>5,077</u>
Change in net assets of <i>governmental activities</i>			<u>\$ 308,888</u>

See notes to financial statements

***Township of Fabius***

**STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund***

***March 31, 2007***

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**ASSETS**

Cash	\$ <u>7,588</u>
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**LIABILITIES**

Due to others	\$ <u>7,588</u>
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*See notes to financial statements*



**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Township of Fabius, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

*a) Reporting entity:*

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from state shared revenue and refuse royalties.

The Capital Improvement Fund accounts for the financial resources used for capital improvements within the Township. Revenues are primarily derived from investment income and contributions from the General Fund.

The Township reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted as they are needed.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

*ii) Investments* - Investments are reported at fair value.

*iii) Receivables* - No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

*iv) Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**d) Assets, liabilities, and net assets or equity (continued):**

**iv) Capital assets (continued)** - Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 40 years
Equipment	5 years
Infrastructure	20 years

**v) Fund equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**vi) Property tax revenue recognition** - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. The Township considers property taxes levied December 1 to be revenue of the current year. The Township did not levy an operating tax during the fiscal year ending March 31, 2007. Property tax revenue consists solely of trailer tax, tax administration fees, penalties and interest, and Section 425 revenue.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Budgetary information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	Clerk	\$ 19,600	\$ 20,775	\$ (1,175)
		Treasurer	29,286	40,483	(11,197)
		Hall and grounds	30,100	40,746	(10,646)
	Public safety	Fire protection	45,000	52,854	(7,854)
	Public works	Road maintenance	185,000	186,586	(1,586)
	Health and welfare	Ambulance	12,000	15,371	(3,371)

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 3 - CASH AND INVESTMENTS:**

The Township's cash and investments are as follows:

	<u>Governmental activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 1,344,162	\$ 7,588	\$ 1,351,750
Investments	1,433,832	-	1,433,832
Cash on hand	<u>50</u>	<u>-</u>	<u>50</u>
	<u>\$ 2,778,044</u>	<u>\$ 7,588</u>	<u>\$ 2,785,632</u>

*Deposits with financial institutions:*

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. Except as follows, the Township's deposits are in accordance with statutory authority. The Township holds two certificates of deposit (total value of \$86,000 and \$47,000) with a bank that does not operate within the State. The certificates mature in 2011 and 2012, respectively, but are callable by the bank.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2007, \$488,473 of the Township's bank balances of \$1,356,453 was exposed to custodial credit risk because it was uninsured.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

*Investments:*

State statutes and the Township's investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds composed of otherwise legal investments. The Township's investments are carried at cost, which approximates fair market value. The Township's investments are in accordance with statutory authority.

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH AND INVESTMENTS (Continued):**

The Township's investments are subject to several types of risk, which are discussed below:

*Custodial credit risk.* Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Township will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the Township's investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments. At year end, the following investment securities were uninsured and unregistered and held by the same broker-dealer (counterparty) that purchased the securities for the Township:

<u>Investment type</u>	<u>Carrying amount</u>
U.S. government and agency securities	<u>\$ 1,433,832</u>

*Interest rate risk.* Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment's fair value due to changes in market interest rates. The Township monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Township's investment policy has no specific limitations with respect to maturities of investments. At year end, the average maturities of the Township's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>
U.S. government and agency securities:		
Federal Home Loan Mortgage Corporation	\$ 530,403	4.53
Federal Home Loan Bank	214,464	4.38
Federal National Mortgage Association	200,476	1.40
Tennessee Valley Authority Senior Notes	159,629	1.13
Treasury notes	177,563	0.92
Financing Corp CPN FICO STRIPS	<u>151,297</u>	0.61
	<u>\$ 1,433,832</u>	

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH AND INVESTMENTS (Continued):**

*Credit risk.* Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government are not considered to have credit risk. At year end, the credit quality ratings of the Township's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
U.S. government and agency securities:			
Treasury notes	\$ 177,563	-	-
Financing Corp CPN FICO STRIPS	151,297	-	-
Federal Home Loan Mortgage Corporation	530,403	AAA	S&P
Federal Home Loan Bank	214,464	AAA	S&P
Federal National Mortgage Association	200,476	AAA	S&P
Tennessee Valley Authority Senior Notes	159,629	AAA	S&P

*Concentration of credit risk.* State statutes and the Township's investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the Township's total investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Percentage</u>
U.S. government and agency securities:		
Federal Home Loan Mortgage Corporation	\$ 530,403	37%
Federal Home Loan Bank	214,464	15%
Federal National Mortgage Association	200,476	14%
Treasury notes	177,563	12%
Financing Corp CPN FICO STRIPS	151,297	11%
Tennessee Valley Authority Senior Notes	159,629	11%

**NOTE 4 - RECEIVABLES:**

Receivables as of year end are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 97,521	\$ 36,690	\$ 134,211

All receivables are considered fully collectible within one year.

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended March 31, 2007, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets being depreciated:				
Buildings and improvements	237,468	21,413	-	258,881
Equipment	25,521	6,972	-	32,493
Infrastructure	157,349	183,083	-	340,432
Subtotal	420,338	211,468	-	631,806
Less accumulated depreciation for:				
Buildings and improvements	(91,314)	(6,924)	-	(98,238)
Equipment	(15,120)	(4,562)	-	(19,682)
Infrastructure	(7,747)	(12,445)	-	(20,192)
Subtotal	(114,181)	(23,931)	-	(138,112)
Total capital assets being depreciated, net	306,157	187,537	-	493,694
Governmental activities capital assets, net	\$ 307,157	\$ 187,537	\$ -	\$ 494,694

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 11,486
Public safety	2,280
Public works	10,165
	<u>\$ 23,931</u>

**NOTE 6 - PAYABLES:**

Payables as of year end are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Inter- governmental</i>	<i>Total</i>
General	\$ 4,308	\$ 11,632	\$ 15,940

**Township of Fabius**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 7 - ROYALTY AGREEMENT:**

The Township has a contractual agreement with a waste management company to receive a fee based upon usage at the site until the facility closes. The fee is based on the rate of 77.4 cents per ton. The facility has no immediate plan for closure as of March 31, 2007.

**NOTE 8 - CONSTRUCTION CODE ACT:**

A summary of construction code enforcement transactions for the year ended March 31, 2007, is as follows:

Revenues	\$ 35,946
Expenses	<u>37,291</u>
Excess of revenues over expenses	<u>\$ (1,345)</u>
Cumulative excess, included in fund balance reservation of General Fund	<u>\$ 16,575</u>

**NOTE 9 - JOINT VENTURE:**

*Lockport, Fabius, Park Township Fire Association:*

The Township is a member of the Lockport, Fabius, Park Township Fire Association (the Association), which is a joint venture of the Townships of Lockport, Fabius, and Park. The Administrative Board of the Association consists of members appointed by each participating unit and a member at-large. The Association was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. During the year ended March 31, 2007, the Township of Fabius contributed \$61,100 as its proportionate share of the Association's budgeted costs. Complete audited financial statements for the Association can be obtained from the Treasurer of the Township of Lockport.

**NOTE 10 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN:**

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. The Township annually contributes 25% of the participant's base salary and participants are immediately 100% vested. The Township made the required contributions of \$13,198. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Fabius****BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended March 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes	\$ 44,300	\$ 44,300	\$ 43,782	\$ (518)
Licenses and permits	40,000	40,000	35,946	(4,054)
State grants	226,000	226,000	229,492	3,492
Charges for services	15,000	15,000	25,459	10,459
Interest, rentals, and royalties	486,000	486,000	399,000	(87,000)
Other	<u>5,490</u>	<u>5,490</u>	<u>1,736</u>	<u>(3,754)</u>
Total revenues	<u>816,790</u>	<u>816,790</u>	<u>735,415</u>	<u>(81,375)</u>
<b>EXPENDITURES</b>				
Legislative	<u>20,872</u>	<u>20,872</u>	<u>9,343</u>	<u>11,529</u>
General government:				
Supervisor	19,400	19,400	17,316	2,084
Election	3,900	3,900	4,429	(529)
Assessor	36,100	36,100	28,862	7,238
Clerk	19,600	19,600	20,775	(1,175)
Board of review	1,200	1,200	959	241
Treasurer	29,286	29,286	40,483	(11,197)
Hall and grounds	30,100	30,100	40,746	(10,646)
Cemetery	2,389	2,389	1,427	962
Other	<u>102,000</u>	<u>102,000</u>	<u>101,159</u>	<u>841</u>
Total general government	<u>243,975</u>	<u>243,975</u>	<u>256,156</u>	<u>(12,181)</u>
Public safety:				
Law enforcement	91,970	91,970	81,477	10,493
Fire protection	45,000	45,000	52,854	(7,854)
Inspections	<u>45,000</u>	<u>45,000</u>	<u>32,322</u>	<u>12,678</u>
Total public safety	<u>181,970</u>	<u>181,970</u>	<u>166,653</u>	<u>15,317</u>
Public works:				
Road maintenance	125,000	185,000	186,586	(1,586)
Soil conservation - wetlands	<u>2,100</u>	<u>2,100</u>	<u>12</u>	<u>2,088</u>
Total public works	<u>127,100</u>	<u>187,100</u>	<u>186,598</u>	<u>502</u>

**Township of Fabius****BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>EXPENDITURES (Continued)</b>				
Health and welfare - ambulance service	\$ 12,000	\$ 12,000	\$ 15,371	\$ (3,371)
Community and economic development - planning and zoning	15,450	15,450	15,471	(21)
Recreation and cultural - library	56,000	56,000	56,000	-
Capital outlay	162,100	162,100	9,000	153,100
Total expenditures	819,467	879,467	714,592	164,875
<b>EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES</b>	(2,677)	(62,677)	20,823	83,500
<b>OTHER FINANCING USES</b>				
Transfer to Capital Improvement Fund	(100,000)	(100,000)	(100,000)	-
<b>NET CHANGES IN FUND BALANCES</b>	(102,677)	(162,677)	(79,177)	83,500
<b>FUND BALANCES - BEGINNING</b>	869,552	869,552	869,552	-
<b>FUND BALANCES - ENDING</b>	\$ 766,875	\$ 706,875	\$ 790,375	\$ 83,500

**Township of Fabius****BUDGETARY COMPARISON SCHEDULE - Sewer Capital Improvement Fund**

Year ended March 31, 2007

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	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ 95,451	\$ 95,451
<b>OTHER FINANCING SOURCES.</b>				
Transfer from General Fund	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>
<b>NET CHANGES IN FUND BALANCES</b>	-	-	195,451	195,451
<b>FUND BALANCES - BEGINNING</b>	<u>1,910,489</u>	<u>1,910,489</u>	<u>1,910,489</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$1,910,489</u>	<u>\$1,910,489</u>	<u>\$2,105,940</u>	<u>\$ 195,451</u>

# SEBER TANS, PLC

## CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 21, 2007

Board of Trustees  
Township of Fabius

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Fabius (the Township) as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Segregation-of-duties. The Township Treasurer has the following incompatible duties with regards with the tax receiving fund: 1) receives property tax receipts under single control, 2) posts property tax receipts to the subsidiary ledger and general ledger, 3) writes checks to the appropriate governmental unit, 4) has check signing authority and 5) reconciles the bank account.

Because of these incompatible duties, errors or fraud may occur and not be detected by internal accounting controls. We recommend that the Board of Trustees explore ways of segregating duties or the Treasurer and closely monitor the fiduciary responsibilities of the Township. We recommend that bonding of all personnel be periodically reviewed to assure that adequate coverage is maintained.

To the Board of Trustees  
The Township of Fabius  
August 21, 2007  
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This Communication is intended solely for the use of the Township Board, management and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very Truly Yours,

  
Seber Tans, PLC